



# STARTing Line



Volume VI, Issue 3, Fourth Quarter 2003

News about START, Louisiana's tax-advantaged 529 college savings program

## START/Vanguard equity options available starting February 2004



As a means for Student Tuition Assistance and Revenue Trust (START) account owners to further diversify their portfolios, the state's Qualified Tuition Program under Section 529

of the Internal Revenue Code will add five additional investment options to complement the existing Louisiana Fixed-Return Investment Portfolio currently offered and managed by the state treasurer.

The new START investment options will invest (either partially or entirely) in mutual funds managed by The Vanguard Group – a company that has provided investment management services for more than 25 years and currently manages approximately \$675 billion in assets. In addition to Louisiana's START Saving Program, Vanguard manages approximately \$4 billion in assets for seven other state-sponsored 529 college savings plans.

START will offer the following six investment options, beginning Feb. 1, 2004:

**Option 1—Age-Based Option:** This option is geared toward investors who do not want the burden of monitoring and periodically adjusting their college investment portfolios. It is a multi-tiered plan that includes four different investment portfolios, based on the age of the beneficiary. The investment plan starts with an initial high-risk investment port-

folio where the assets are mainly invested in stocks. As the beneficiary ages, the assets are automatically shifted, according to a set schedule, into increasingly conservative portfolios, toward more bonds and short-term reserves, in order to protect the capital and reduce the risk.

•Ages 0-5

Vanguard LifeStrategy Moderate Growth Portfolio

•Ages 6-10



### THE Vanguard GROUP

The Vanguard Group, Vanguard, and the ship logo are trademarks of the Vanguard Group, Inc.

Vanguard LifeStrategy Conservative Growth Portfolio

•Ages 11-15

Vanguard LifeStrategy Income Portfolio

•Ages 16+

Louisiana Principal Protection Option

**Option 2—Louisiana Principal Protection Option:** This option is the origi-

nal, conservative START investment plan managed by the state treasurer. The option invests 100 percent of its assets in fixed-income investments, such as government bonds, notes and certificates of deposit. The state guarantees the principal, but does not guarantee any specific amount of investment return. Every other Option involves some risk of loss of principal.

**Option 3—Total Equity Option:**

This option invests 100 percent of its assets in a Vanguard portfolio of broadly diversified U.S. stocks, which allows account owners to seek the highest possible return, while assuming the highest possible risk for their investment.

**Option 4—Balanced Option:**

This option initially invests 50 percent of its

assets in a Vanguard fund holding a broadly diversified portfolio of U.S. stocks and 50 percent in a portfolio of bonds managed by the state treasurer (the state guarantees against the loss of principal for investments managed by the state treasurer).

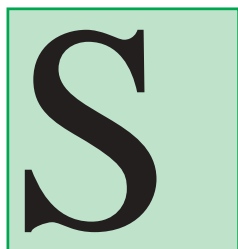
**Option 5—Equity-Plus Option:**

This option initially invests 75 percent of its assets in a Vanguard fund holding a

*continued on page 3*

# Mutual fund scandals not affecting START

## *Structure of state 529 plan immune to present crisis*



candals now plaguing the mutual fund industry have not affected parents' investments in Louisiana's 529 Plan, also known as the Student

Tuition Assistance and Revenue Trust (START) Program, according to State Treasurer John Kennedy.

"There has been a lot of news lately about problems on Wall Street and with mutual fund companies, but money that has been invested in START is protected," Kennedy said.

"These current mutual fund scandals have not hit the nearly 11,000 college savings accounts Louisiana parents have worked so hard to save for," he added.

Currently, START accounts have had no exposure to the mutual fund industry. The treasury has invested START accounts completely in fixed-income investments like government bonds, notes and certificates of deposit.

Beginning in February 2004, however, START account owners will be able to choose to invest all or a portion of their accounts in equities.

The state treasury will continue to manage fixed-income investments for START, and The Vanguard Group (a 25-year investment management services veteran) will manage accounts invested partially or completely in equities.

"We will be offering various options for parents to diversify their START accounts, and even then, the choices will be entirely up to the account owner," Kennedy said.

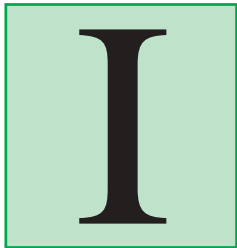
For more information about investments in the START Program, visit the START Web site at [www.startsaving.la.gov](http://www.startsaving.la.gov).

## START NOTES...from Director Carol Fulco



- In order to deduct START deposits from Louisiana taxable income for tax year 2003, deposits must have been received in the START office no later than the close of business Dec. 31, 2003.
- In the interest of security, START will no longer use Social Security Numbers as the main account number. New account numbers will be assigned to all accounts soon after the equity-option software conversion has taken place.
- Requests for disbursements and refunds are made easier when the account owner makes such requests online and funds are directed to the school, owner or beneficiary. Earnings Enhancements may also be sent to the school, owner or beneficiary.

# New software in place for equities options



In conjunction with the introduction of new investment options on Feb. 1, the Information Technology (IT) Division of the Louisiana Office of Student Financial Assistance (LOSFA) will

activate an extensive new software system equipped with the latest innovations for accessing and managing online accounts.

“Our previous software was designed by in-house staff and, to date, was quite competent in meeting the programming needs of START account owners and staff users,” IT Director Terry Tuminello said. “However, when the Legislature decided

to offer owners a variety of mutual fund portfolio options, we knew our software system needed to be upgraded.”

Upon investigating various operating systems utilized at several locations around the country, Tuminello was impressed with a system used by a North Carolina nonprofit student financial assistance agency that is similar to LOSFA in function and design.

He contacted the system’s creator, Innovative Software Solutions — a company based in Charlotte, N.C. — and explained the operating requirements for an equities options software system. The programmers assured him the system could be easily modified to conform to START needs.

Tuminello purchased the sophisticated software and began converting account data into a format compatible with the new system.

“This is a much better system, for account owners and for staff users,” Tuminello said. “Owners can do everything online: enroll in the program, validate their electronic signatures, even keep track of their mutual fund performance on a daily basis.”

Tuminello said that investments manager Vanguard, Inc., will contact LOSFA with closing figures when the stock market shuts down at the end of business each day. IT staffers will then update portfolios in START accounts, so that owners can have an accurate and up-to-date view of their investments’ performance, available first thing next morning.

## Equity options

continued from page 1

broadly diversified portfolio of U.S. stocks and 25 percent in a portfolio of bonds managed by the state treasurer (the state guarantees against the loss of principal for investments managed by the state treasurer).

**Option 6—Principal Preservation-Plus Option:** This option initially invests 25 percent of its assets in a Vanguard portfolio of broadly diversified U.S. stocks and 75 percent in a fund of bonds managed by the state treasurer (the state guarantees against the loss of principal for investments managed by the state treasurer).

There will be no direct management fees imposed on the six investment options. However, five of the six options invest in Vanguard funds, and a pro rata portion of the expenses incurred by those funds will be borne indirectly by account owners choosing these options. Options with a higher percentage of assets in Vanguard funds will have higher expenses. The following figures are approximate amounts of the indirect expenses:

**Option 1:** 0.27 percent or 0.28 percent per year (\$2.70 or \$2.80 per \$1,000 invested), except that when the beneficiary turns 16, the indirect expenses drop to zero (because the option no longer invests in any Vanguard funds).

**Option 2:** Zero (because this option is managed by the state treasurer and does not invest in any Vanguard funds).

**Option 3:** 0.15 percent per year (\$1.50 for each \$1,000 invested).

**Option 4:** 0.08 percent per year (80 cents for each \$1,000 invested).

**Option 5:** 0.11 percent per year (\$1.10 for each \$1,000 invested).

**Option 6:** 0.04 percent per year (40 cents for each \$1,000 invested).

All investment options are eligible for state matching funds — the percentage is based on account owner income — in the form of Earnings Enhancements (EEs). All EEs are automatically invested in the Louisiana Principal Protection Option.

Owners may move assets from one investment option to another only once per

calendar year. When options are changed, future contributions will be invested in the new option.

Account owners who invest in the new investment options have the opportunity to gain a higher return than is currently available in Option 2. Yet, the opportunity must be balanced against the risk of loss inherent in any investment that is not guaranteed.

“With the addition of the new investment options, our 529 plan is the best college savings plan for Louisiana citizens,” START Director Carol Fulco said. “We now offer all of the sought-after features of other college savings plans, plus the added advantage of state matching funds.”

In January, account owners will be notified of the new equity options and requested to select an investment plan.

For more information, please call the START office toll-free at (800) 259-5626, Ext. 0523.

**NOTICE TO ACCOUNT OWNERS:**

**START account numbers are the Social Security Numbers of the account owner followed by a two-digit number assigned to the beneficiary. This account number — not the beneficiary's Social Security Number — must be recorded on all payments and correspondence concerning the account. Be aware that account numbers will soon be changed to eliminate Social Security Numbers. Use your new account number when it is assigned.**

This public document was published at a total cost of \$2,111.56. Nine thousand copies of this document were published in this first printing at a cost of \$2,111.56. The total cost of all printing of this document, including reprints, is \$2,111.56. This document was published by the Louisiana Tuition Trust Authority, P.O. Box 91271, Baton Rouge La., 70821-9271, and printed by LSU Graphic Services, 3555 River Road, Baton Rouge, La., 70803-8201, to provide public information on the Louisiana Student Tuition Assistance and Revenue Trust Program, under special exemption by the Division of Administration. This material was printed in accordance with the standards of printing by state agencies pursuant to R.S. 43:31.



Write START at  
P.O. Box 91271  
Baton Rouge, La 70821-9271



E-mail START at  
[start@osfa.state.la.us](mailto:start@osfa.state.la.us)



To speak to a representative  
(800) 259-5626



Visit START online:  
[www.osfa.state.la.us](http://www.osfa.state.la.us)

PRSRSTD AUTO  
U.S. POSTAGE  
PAID  
BATON ROUGE, LA  
PERMIT NO 2061

Louisiana Tuition Trust Authority  
START Saving Program  
P.O. Box 91271  
Baton Rouge, LA 70821-9271